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RUEHBU/AMEMBASSY BUENOS AIRES 5412  
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RUEHPE/AMEMBASSY LIMA 2802  
RUEHMD/AMEMBASSY MADRID 3535  
RUEHMN/AMEMBASSY MONTEVIDEO 4724  
RUEHQT/AMEMBASSY QUITO 5273  
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SUBJECT: RAILROAD NATIONALIZATION ON THE HORIZON?

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Summary  
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¶1. (SBU) President Morales announced at a public event on July 15 that the GOB would begin the nationalization of ENFE, the partially-privatized national railroad company, soon. The GOB's interest seems focused on the Chilean-invested western railway, but may implicate the partially U.S.-owned (Genesee and Wyoming) eastern branch as well. End summary.

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GOB's "Nationalization" Plan Targets Railroads  
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¶2. (SBU) The GOB announced in its national development plan of June 2006 that it would nationalize nine of the ten state-owned companies that were partially privatized in the 1990s. It began with hydrocarbons and then attempted (to date unsuccessfully) to regain control of Bolivia's largest telecoms operator Entel. With growing public concern over rising inflation, President Morales has again raised the popular banner of nationalization to distract attention away from other problems. This time, the target is ENFE -- the national railroad company that was partially privatized in ¶1996.

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Chileans More at Risk than US Investors?  
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¶3. (SBU) In 1996, ENFE was split into two companies: Ferroviaria Andina, which is 50 percent owned by Chilean investors, and Ferroviaria Oriental, which is 50 percent owned by the U.S. company Genesee and Wyoming. According to prior conversations with Ferroviaria Oriental Manager Jaime Valencia, the GOB was focusing its nationalization aspirations on the unsuccessful Ferroviaria Andina in western Bolivia. The government had indicated to Valencia that it did not plan to take over the successful eastern branch of the railroad, in which Genesee and Wyoming has invested USD 90 million. However, in a public event on July 15, President

Morales announced that the GOB is beginning the take-over of ENFE.

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GOB's Announcement: More Noise than Substance?  
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¶4. (SBU) Ferroviaria Oriental (FO) Commercial Manager Enrique Rioja told Econoff on July 17 that the president's announcement took the company by surprise, as FO has not had any discussions with the GOB regarding a potential take-over.

He suspects that the GOB will not take any action regarding the announcement soon. He is hopeful that the GOB's actions will focus on the western, Chilean-owned Ferroviaria Andina, but worried about the possibility that the government's intentions may include FO, as well.

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Comment  
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¶5. (SBU) If the GOB does move to "nationalize" the railroads, it will likely focus on the Chilean-owned western branch, rather than the U.S.-owned eastern line. If this nationalization is analogous to "nationalizations" in the hydrocarbons and telecommunications fields, the GOB will not expropriate property, but seek to coerce private investors to sell it enough shares to enable it to gain control of the companies. However, the Vinto smelter expropriation without compensation represents a harsher example that cannot be ruled out as a possibility. Post will continue to monitor the situation as it unfolds. End comment.  
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